

**State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION**

Monthly Meeting February 23, 2011

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, February 23, 2011. General Treasurer Raimondo called the meeting to order at 9:04 a.m.

Membership Roll Call. Present were: Ms. Rosemary Booth Gallogly, Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo, establishing a quorum. Also present were: Ms. Sally Dowling, of Adler Pollock, & Sheehan and Joe Rodio, Jr., of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Mr. Nick Katsikis and Ms. Lisa Tyrrell of State Street Corporation, Frank Karpinski, Executive Director of the Employees' Retirement System of Rhode Island and members of the Treasurer's staff.

State Investment Commission Minutes. Treasurer Raimondo entertained a motion for approval of the minutes for the meeting of January 26, 2011. Mr. Costello moved, Ms. Booth Gallogly seconded, and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To approve the Minutes of the January 26, 2011 monthly meeting.

General Consultant Report. The Treasurer asked John Burns from Pension Consulting Alliance to make a presentation on asset liability study.

Mr. Burns pointed out that page two of his handout is basically what we need to know on the topic. The last liability study was in 2003 by Wilshire Associates. PCA did do an asset allocation study in 2009. The asset liability study needs to be performed more frequently to ensure that investments are on track with long-term objectives. The third bullet is important in that the investment markets have changed since 2003 and more importantly the plan's financial condition has changed. Reasons to consider in deciding on a study are: 1. your tolerance for risk could change 2. The plan's financial condition constantly changes or 3. your funding ratio changes. Your view of risk when your 75% funded is very different than when you are 55% funded. The study primarily focuses on risk and return but will also incorporate planned financial metrics like funding ratio, contribution level, and volatility. Typically a study like this takes 2-4 months and there is a lot of board involvement and interactions. A study is usually conducted once every 4 or 5 years and also when RFPs are issued for consultants.

Treasurer Raimondo asked, in addition to the fact that this is a good thing to do because we're over due for it and as trustees we ought to do it, this will also be an opportunity to engage in a discussion about risk. What does risk mean and what level of risk do we feel comfortable with? This is a great board exercise to go through.

Treasurer Raimondo said she also chairs the retirement board which represents the liability side. They are in the process of conducting an experience study. The actuary should finish the study in April. What they do is test our actual experience relative to the assumptions they made. We will have the most accurate data around the liabilities which is another benefit to doing this now.

Treasurer Raimondo entertained a motion to begin an asset liability study. Ms. Booth Gallogly moved, Ms. Reback seconded, and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To begin an asset liability study.

Update on the Alternative Consultant Mr. Goodreau stated we have an active alternative consultant RFP and we had three firms come in to make presentations. We've also opened the discussion to look at real estate, the hedge fund space and the total return bucket. The Treasurer has had discussions with many of the board members and she thinks we need to look seriously at making the switch from PCG. She has met with Cliffwater and is meeting with Hamilton Lane this week. The Treasurer thinks we should move on this because we have a large alternative asset portfolio that needs to be managed. If we can find a firm which has expertise across the spectrum there may be benefits because of economies of scale and we should get a little more attention. We are not making a recommendation today, because we are taking it very seriously and being very diligent about it, but next month we may come back and have someone present to the board and we want to engage all of you in this process.

Local Government Investment Pool Presentation: Vincent Izzo explained that we have presented this study on two occasions in the prior administration about our thoughts and research on LGIP. We want to further this discussion and ask the board's approval to go to the next step. To recap, 45 of the 50 states have some type of government pool which services the state, state quasi-agencies, municipalities and legal subdivisions of municipalities. The time is right to bring this to the state of Rhode island. The big benefit is that the pool can get enhanced yield over what we currently invest in while not changing our investment policies. The investment commission's investment policies for short-term investments will govern the pool and we expect, because of the composition of the pool, to get a 25 plus basis point yield in this environment.

Mr. Goodreau stated that this is a vehicle that will be attractive and other municipalities will want to be involved. We are going to be the biggest client, so it will predominately be our decision-making that affects the pool and not 40 different types of opinions. It will have liquidity and is materially more attractive in a low interest rate environment. It will be even more attractive in an environment with higher rates of return.

Treasurer Raimondo says to be clear, in order to set this up it will require some resources from Treasury and Vin's team to establish the structure, an RFP proposal and some education. There will be some start up time commitments that the Treasurer's staff will have to do, but on a go-forward basis the plan would be very limited involvement from our staff. The Treasurer had a lunch with city managers and mayors and the concept has been very favorably viewed.

The Treasurer entertained for a motion to move forward with the a creation of an LGIP and to seek statutory authority for the LGIP. Ms. Booth Gallogly moved, Mr. Costello seconded, and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr.

Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To move forward with a creation of an LGIP and to seek statutory authority for the LGIP.

Consideration of SBA Pools as Acceptable Collateral for Short-Term Investments: Mr. Izzo says this has risen from a request from our providers. This practice is used throughout the country as the SBA pool is considered a US agency obligation, but since we have never accepted or used SBA pools as collateral, we are asking for formal approval. Being a US agency obligation means it is guaranteed by the full faith and credit of the United States government. From the banks perspective these pools are rated as a zero risk weighted asset. Vin passed out a research paper by Morgan Keegan that supports the use of the pools as an investment vehicle and means of collateral. The state of Massachusetts accepts these as collateral and the GFOA best practices states they are accepted by almost every state and subdivision in the country. Mr. Izzo hopes it can produce higher yields on the state's investments because the banks have lower costs of collateral.

Treasurer Raimondo entertained a motion to accept SBA pools as collateral for short-term investments. Ms. Reback moved, Mr. Reilly seconded, and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To accept SBA pools as collateral for short-term investments.

Presentation on the OPEB Custodian Contract: Mr. Dingley explained the trust was executed and put into place in December and submitted to the IRS for a favorable determination letter. The state is ready to move assets, but because it deals with retiree health benefits, which must be kept completely separate from pension benefits, a separate custodial agreement is required. We have worked closely with State Street and used the existing custodial agreement for pension assets and revised it to eliminate mention of pension assets and to incorporate the appropriate parts of the OPEB statute. Sally Dowling has reviewed the agreement.

Ms. Dowling stated that the agreement is a traditional custodial agreement which has been modified to conform to the statute. The state needs to do the schedule B fee agreement.

Mr. Dingley says the two remaining elements are the investment policy and fee schedule. Once we finalize the investment policy, we will talk to State Street about fees. We expect the fees to be a few thousand dollars.

Treasurer Raimondo entertained a motion to approve the separate custodial agreement for the OPEB trust subject to final review and approval by legal counsel. Ms. Booth Gallogly moved, Mr. Fay seconded, and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To approve the separate custodial agreement for the OPEB trust subject to final review and approval by legal counsel.

Legal Counsel Report. Legal Counsel had no other report.

Chief Investment Officer Report. Mr. Goodreau had no other report.

Treasurer's Report. Treasurer Raimondo thanked everyone for taking the time to meet with her one-on-one. She has a couple more and she is looking forward to those meetings. These meetings are helpful for her to hear the board's ideas, get some historical perspective and hear the board's suggestions on how we should go forward. The board will be hearing from the Treasurer's office about attending some educational sessions. The Treasurer is continuing the review of her office. She has met with most of the and today she is meeting with PCG to get updated on the private equity portfolio. Mr. Costello asked for an update on Alliance Bernstein.

Treasurer Raimondo has engaged a consultant who is an expert in the 529 area and they started a study last week so hopefully we will know more in 30-60 days. The Treasurer has not yet met with Alliance who has asked for a meeting, but she prefers to do her due diligence first and then have the meeting.

New Business. There was no new business.

There being no new business, Ms. Marcia Reback moved to adjourn, Mr. Costello seconded and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 9:55 a.m.

Respectfully submitted,

A handwritten signature in black ink that reads "Gina Raimondo". The signature is written in a cursive, flowing style.

Gina M. Raimondo
General Treasurer